

## Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 H-02 AID-05 IGA-02 COME-00 /027 W

-----210859Z 124831 /13

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 6583

UNCLAS COLOMBO 0266

FOR EB/IFD/ODF

E.O. 11652:N/A

TAGS: EFIN,EAID, OREP,CE

SUBJECT: SENATOR GRAVEL'S PAPER ON TAXATION FOR DEVELOPMENT  
ASSISTANCE

REF: STATE 009837

1. WHILE THE EMBASSY'S SMALL STAFF LIMITS OUR ABILITY TO  
PROVIDE A DETAILED ANALYSIS OF SENATOR GRAVEL'S INTERESTING  
AND USEFUL PAPER, WE WOULD LIKE TO MAKE A FEW GENERAL  
COMMENTS.

2. DESPITE THE REAL AND IMAGINARY FEARS MANY LDCS HAVE  
ABOUT DEALING WITH MULTINATIONAL CORPORATIONS (MNCs), WE  
AGREE THAT THE MNCs ARE STILL THE BEST VEHICLE FOR TRANSFERRING  
CAPITAL AND KNOW-HOW TO THE DEVELOPING WORLD. EVEN  
IF ALL AID DONOR COUNTRIES ACHIEVE THE 0.7 PERCENT GNP  
TARGET FOR OFFICIAL DEVELOPMENT ASSISTANCE (ODA), THE  
POORER COUNTRIES WILL STILL REQUIRE LARGE INFLOWS OF  
PRIVATE INVESTMENT CAPITAL TO PROMOTE THEIR ECONOMIC  
DEVELOPMENT. THE CONCEPT OF RECYCLING SOME MNC PROFITS  
BACK TO THE THIRD WORLD COULD BE USEFUL IN HELPING TO  
COUNTER THE OFTEN-HEARD CRITICISM THAT THE MULTINATIONALS  
TAKE MORE OUT OF A COUNTRY THAN THEY BRING IN. MOREOVER,  
TIEING THE DEVELOPMENT ASSISTANCE TAX CREDIT TO COMPLIANCE  
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WITH GUIDELINES OF ETHICAL CORPORATE BEHAVIOR MIGHT ALSO  
HELP TO IMPROVE THE GENERAL IMAGE OF THE MNCs.

3. IF WE UNDERSTAND THE SENATOR'S PROPOSAL CORRECTLY,  
ALL CORPORATIONS WHICH COMPLY WITH THE OECD GUIDELINES  
FOR MULTINATIONAL ENTERPRISES WOULD BE ELIGIBLE FOR A  
SIMULTANEOUS TAX CREDIT DOLLAR FOR DOLLAR AGAINST THE

DEVELOPMENT ASSISTANCE TAX. THE NET EFFECT OF THE PROPOSAL WOULD APPEAR TO BE A DOUBLING OF UNITED STATES ODA WITH NO REAL INCREASE IN TAX REVENUES. IN FACT, LINKING A DEVELOPMENT ASSISTANCE TAX REFUND TO CAPITAL INVESTMENTS IN LLDC AND MSA COUNTRIES COULD RESULT IN A NET DECLINE IN TAX REVENUES. WHILE THE SENATOR IS A FAR BETTER JUDGE OF WHAT THE CONGRESS IS LIKELY TO APPROVE THAN WE ARE, IT ISEEMS TO US THAT DROPPING THE TAX REFUND IDEA MIGHT HELP IN GETTING THE PROPOSAL THROUGH THE CONGRESS. MOREOVER, WHEN POTENTIAL BENEFICIARIES OF THE EDUCATIONAL TRUST FUND, WHICH WE PRESUME WOULD BE MAINLY THE LLDC AND MSA COUNTRIES, REALIZE THAT EVERY TWO DOLLARS OF QUALIFYING FOREIGN INVESTMENT BY A MNC COULD TAKE A DOLLAR OUT OF THE TRUST FUND, THEY MIGHT SEE THIS AS A SUBSIDY TO THE MNC WHICH COMES OUT OF THEIR POCKETS.  
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## Message Attributes

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